

Message Text

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ACTION EB-07

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C O N F I D E N T I A L NEW DELHI 12207

PASS EXIM BANK FOR CHAIRMAN AND EXEC VP BIEM

E.O. 11652: GDS

TAGS: EAIR, BEXP, IN

SUBJECT: EXIM BANK FINANCING OF BOEING 737S FOR INDIAN AIRLINES

REF: (A) STATE 202136, (B) NEW DELHI 12131

SUMMARY: INDIAN AIRLINES OFFICIALS HAVE TOLD BOEING REGIONAL REPRESENTATIVE MIKE FITZGERALD THAT EUROPEAN FINANCIAL OFFIERS FOR IA PLANE PROCUREMENT ARE LOWER THAN EXIM FINANCIAL PACKAGE AND THAT EXIM MUST IMPROVE ITS TERMS IF BOEING IS TO STAY IN THE RUNNING. END SUMMARY

1. AT AUGUST 19 MEETING IA OFFICIALS TOLD FITZGERALD THE FOLLOWING REGARDING FINANCIAL TERMS (HE WAS NOT SHOWN ANY DOCUMENTATION):

A. PRESENT EXIM BANK FINANCING IS NOT SUFFICIENTLY COMPETITIVE. IA CALCULATES THAT EXIM BANK'S EFFECTIVE INTEREST RATE OF LATEST OFFER IS 9.1 PERCENT (9 PERCENT PLUS ONE TIME COMMITMENT AND MANAGEMENT FEES OF .5 PERCENT EACH). IA WOULD LIKE EXIM BASIC INTEREST RATE OF 8 PERCENT COVERING 60 PERCENT (OR AT LEAST 55 PERCENT)

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OF TOTAL LOAN.

B. MANUFACTURES HANOVER'S (A PART OF THE TOTAL BOEING FINANCING) FLOATING INTEREST RATE (1.5-2 PERCENT ABOVE PRIME RATE) IS TOO HIGH, PARTICULARLY IF PRIME RATE GOES UP. ALSO, IA IS UNCERTAIN WHETHER THE BANK WILL CHARGE A MANAGEMENT FEE.

C. ACCORDING IA, FOKKER'S EFFECTIVE INTEREST RATE IS 8.55 PERCENT, CALCULATED AS FOLLOWS: 8.5 PERCENT BASIC RATE PLUS ONE TIME INSURANCE PREMIUM OF 6.4 PERCENT OF AMOUNT LOANED PLUS ONE TIME 1 PERCENT COMMITMENT FEE. HOWEVER, IN A SIDE LETTER TO IA THE INSURANCE PREMIUM WILL ACTUALLY BE ABSORBED BY FOKKER (AND EVENTUALLY BY DUTCH GOVERNMENT, ACCORDING TO FITZGERALD.)

D. BAC EFFECTIVE INTEREST RATE IS 8.22 PERCENT (8 PERCENT BASIC RATE PLUS THREE ONE TIME FEES: 1 PERCENT COMMITMENT, .1 PERCENT MANAGEMENT, AND .05 PERCENT NEGOTIATION). IA SAYS THERE IS NO ECG GUARANTEE FEE.

2. ACCORDING TO FITZGERALD, IA TECHNICAL PEOPLE TOLD HIM THAT BOEING WAS THE TECHNICALLY SUPERIOR PLANE. IA OFFICIALS SAID THAT AN INTER-AIRLINE (IA-AIR INDIA) COMMITTEE IS TENTATIVELY SCHEDULED TO MEET AUGUST 25-26 AND MAY MAKE A RECOMMENDATION ON IA PLANE PROCUREMENT. FITZGERALD NOTED THAT ANY RECOMMENDATION WOULD HAVE TO GO TO THE SECRETARY OF THE MINISTRY OF CIVIL AVIATION, WHO WOULD PROBABLY NOT BE AVAILABLE TO MAKE A DECISION UNTIL MID-SEPTEMBER. EVEN THEN, HE MAY REFER THE MATTER TO THE MINISTER OF CIVIL AVIATION.

3. IA HAS REQUESTED BOEING FOR AN EXTENSION OF THE PLANE PROCUREMENT DEADLINE TO SEPTEMBER 30. FITZGERALD WILL BE IN SEATTLE THIS WEEKEND TO SEE IF IA CAN BE ACCOMMODATED. HOWEVER, HE THINKS THAT, IF THERE IS MUCH FURTHER TIME SLIPPAGE, BOEING WILL NOT BE ABLE TO SUPPLY IA WITH 737S IN 1977. FITZGERALD THINKS THAT, SINCE THE PRICE OF THE 737S WILL BE QUITE A BIT HIGHER IN 1978, BOEING MIGHT BE OUT OF THE RUNNING SIMPLY ON THAT BASIS.

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4. BOEING IS PRESENTLY OFFERING IA \$170-180,000 IN SPARES FOR EACH AIRPLANE. IA IS ASKING FOR \$300,000 PER PLANE, AND FITZGERALD WILL DISCUSS THIS PROBLEM IN SEATTLE.

5. COMMENT: ACCORDING FITZGERALD, IA HAS BEEN CANDID WITH HIM IN PAST AND THEREFORE HE BELIEVES IA ASSERTION THAT BRITISH EFFECTIVE OFFERS ARE CLEARLY LOWER THAN EXIM PACKAGE, AND THAT UNLESS EXIM BETTERS ITS TERMS BOEING

MAY VERY WELL LOSE OUT. REF DELHI 12131, WE ASSUME
EXIM IS REMAINING CURRENT ON COMPETITIVE OFFERS, AND
EMBASSY URGES EXIM CONTINUE TO MEET FINANCIAL TERMS OF
EUROPEAN COMPETITION. ANY DECISION IN THIS REGARD SHOULD
PREFERABLY BE MADE BEFORE BEGINNING OF INTER-AIRLINE
COMMITTEE MEETING ON AUGUST 25.
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